GOVERNMENT OF INDIA
CIVIL AVIATION
LOK SABHA

STARRED QUESTION NO:509
ANSWERED ON:23.04.2001
LOSSES INCURRED BY INDIAN AIRLINES
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Will the Minister of CIVIL AVIATION be pleased to state:

(a) whether the Indian Airlines is likely to suffer a net loss of Rs.251 crore during the fiscal year 2001-2002 as reported in the `Hindustan Times` dated March 16, 2001;

(b) if so, whether the Union Government have decided to take any corrective measures to save the Airlines from such huge losses;

(c) if so, the details thereof;

(d) whether redical changes are proposed to be made in the administrative set up of the Indian Airlines; and

(e) if so, the details thereof?

Answer

THE MINISTER OF CIVIL AVIATION (SHRI SHARAD YADAV)

(a),(b),(c),(d) and (e): A statement is laid on the Table of the Sabha.

STATEMENT IN REPLY TO PARTS (a),(b),(c),(d) AND (e) OF LOK SABHA STARRED QUESTION NO.509 TO BE ANSWE ON 23.4.2001 REGARDING LOSSES INCURRED BY INDIAN AIRLINES

(a),(b) and (c): Indian Airlines prepared its budget estimates in early March, 2001 for financial year 2001-02. The Budget estimates a loss of Rs.251.50 crores for financial year 2001-02.

ASSUMPTIONS

The Budget Estimates were based among otherson following important assumptions which effect financial performance of Indian Airlines :

1. Avialable aircraft capacity
Existing aircraft fleet will be increased by :-

(a) to continue to dry lease for two years two Airbus A-300 aircraft taken on lease on 1998-99
(b) dry lease of two Airbus A-320 aircraft from April, 2001
(c) dry lease of two more Airbus A-320 aircraft from November 2001
(d) dry lease of five B-737 aircraft by Alliance Air

2. Exehange Rate
Average foreign exehange rate of 1 US dollar =Rs.47 during the year.

3. Aviation Turbine Fuel
Deregulation of Aviation Turbine Fuel (ATF)

4. Fare increase
No general fare increase across total network.

ASSUMPTIONS THAT HAVE COME INTO EFFECT

1. Available aircraft capacity

(a) Indian Airlines is extending dry lease of two Airbus A-300 aircraft for two years after expiry of previous agreement in May and June 2001.
(b) Of the two Airbus A-320 aircraft proposed on dry lease from April, 2001, first aircraft has arrived on 20th April,2001 and the second will arrive within a fortnight.
(c) Representatives of the Leasing Company for five B-737 aircraft have advised that they will hold discusions with Indian Airlines in the week of 23rd April 2001, for early delivery of five B-737 aircraft to Alliance Air. Indian Airlines will invoke the penalty clause for any delay in delivery of aircraft.

2. Exchange Rate

Foreign exhange rate of 1 US Dollar has increased from Rs.44 last year to Rs.47.

3. Aviation Turbine Fuel

Government has announced a Policy of deregulation of Aviation Turbine Fuel.

IMPACT OF AVIATION TURBINE FUEL (ATF) PRICES ON FINANCIAL PERFORMANCE

The prices of ATF before 1st April 2001, were covered under `Administered Price Mechanism`. The price of ATF was increased on two occasions in the year 2000, first increase of 18% came into effect on 23rd March 2000 and the second increase of 25% came into effect on 30th September,2000. Additionally certain States had increased Sales Tax on ATF during last financial year. Besides increase in ATF prices by the Government of India for domestic operations, the ATF prices of international operations both bonded price ex-India and at foreign stations had gone up substantially during year commencing April, 2000. The financial impact for Indian Airlines of these revisions in ATF prices was as under :-

Particulars	ATF Price Rupees per Kilolitre		Financial Impact in Rupees Crores	
	2000-01	2001-02		
Domestic				
Before 23 March,2000	15180	-	-	
After 23 March, 2000	18000		92	92
(increase of 18.1%)				

After 30 September,2000 22500 73 146

(increase of 25%)

International

Before April,2000 11900 - -
ATF ex-foreign station 9200 - -

During 2000-01

Bonded ATF ex-India 16400 39 39
ATF ex-foreign station 12775 27 27
- -
231 304
-

The above estimates do not include financial impact on Alliance Air.

IMPACT OF ATF PRICES INCREASE ON BUDGET ESTIMATES

The budget estimates for the year 2001-02 were, however, prepared by taking into account a reduction in ATF prices on account of proposed de-regulation of ATF prices by Government from April, 2001. The reduction in expenditure on this account during 2001-02 was estimated at Rs.70 crores. The net financial impact of revision in price of ATF, therefore, for the year 2001-02 stood reduced as under:-

Financial impact as indicated above - Rs.304 crores
Less likely savings on account of de-regulation Rs. 70 crores
(estimates at the time of preparation of Budget)
-
Rs.234 crores

The loss of Rs.251.50 crores was, therefore, based on assumption of additional financial impact of ATF price increases of Rs.234 crores.

KANDHAR HI-JACK AND PATNA ACCIDENT OF B-737 AIRCRAFT

In spite of the aforesaid increases in ATF prices and increase in cost of other inputs, Indian Airlines did not take the soft option of increasing its fares last year in view of decrease in its passenger carriage on account of Kandhar hi-jack and accident of a Boeing 737 aircraft at Patna on 17th July 2000. The confidence of the travelling public was naturally affected due to Patna accident which resulted in substantial drop in passenger carriage by Indian Airlines.

DAILY PASSENGER CARRIAGE OF INDIAN AIRLINES

The daily passenger carriage of Indian Airlines from July to March for last two years is as under:

Month	2000-01	1999-2000
July	18,878	19,841
August	17,942	20,476
September	18,425	19,903
October	19,859	20,589
November	23,130	23,226
December	24,403	23,919
January	23,409	20,877
February	22,902	21,786
March	20,880	19,675

MEASURES TAKEN BY INDIAN AIRLINES

The management of Indian Airlines took a number of steps in consultation with the Ministry of Civil Aviation including

- refurbishment of its Boeing 737 fleet
- more stringent application of maintenance norms,
- improved inflight services etc.

The combined effect of these measures was return of passengers to Indian Airlines. This change is clearly seen in the above details of daily carriage of passengers of Indian Airlines. Indian Airlines achieved these results in spite reduction in its aircraft fleet by one Boeing-737 aircraft. Indian Airlines, therefore,decided at the time of preparation of budget in March, 2001 for the year 2001-02 to wait for changes in fuel prices because of likely announcement of new deregulation policy by the Government.

ADDITIONAL MEASURES TO REDUCE LOSSES

In order to overcome the situation, Indian Airlines has prepared a suitable strategy to further improve its performance and productivity especially in terms of cost control and higher revenue yield. The Board of Indian Airlines has approved a flexible fare policy to be adopted by the company after obtaining the approval of the Government. The implementation of the flexible fare regime will result in higher realization of revenue. Indian Airlines will take necessary steps to monitor and control its costs and revenue which are as under :

Better Fleet Utilization through :

- Improvement in the productivity of Pilots, Aircraft Engineers
- Night flights on certain domestic sectors
- Increased international operations
- Better scheduling of aircraft and route planning
- Capacity deployment in alignment with market requirements.

Improvement in the quality of product through

- Improvement in on-time performance and general improvement and upgradation of service to the users.

Marketing initiatives -

- Code sharing with the foreign airlines
- High level of participation in CRS
- Various promotional schemes including corporate incentives

Cost control measures -

- Control of overtime, casual labour, hotel/travel expenditure
- Freeze on recruitment unless absolutely necessary for operational reasons
- Fuel monitoring and tankering
- Control on material consumption
- Review of uneconomic flights
- Inventory management
- Strict control over crew lay over expenditure
- Cost effective outsourcing of services

(d) and (e): Indian Airlines has taken steps to downsize its top management by reducing the sanctioned strength of Directors from the existing 28 to 23 and that of General Managers to 52.

Indian Airlines has also taken the following steps to contain its manpower :

(i) Ban on direct recruitment from outside other than critical areas like Operations and Engineering

(ii) Roll back of retirement age from 60 to 58 years.

(iii) Outsourcing of non-core activities such as crew pick-up, telecall etc.

(iv) Re-deployment of manpower

(v) Voluntary Retirement Scheme proposed to the Government for employees other than Pilots, Engineers, Technicians and other licensed categories.